

NEWS RELEASE

FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on the City of Hartley, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole.

Hunzelman, Putzier & Co., PLC reported that the City of Hartley's receipts totaled \$4,975,245 for the year ended June 30, 2004, a one percent decrease from 2003. The receipts included \$268,036 in property tax, \$195,663 in increment financing collections, \$100,648 in local option sales tax, \$221,448 from operating grants, contributions, and restricted interest, \$2,369,216 from charges for services, \$80,296 in interest on investments, \$26,674 in special assessments, \$18,000 in sale of assets, \$1,667,804 in note proceeds, and \$27,460 in other general receipts.

Disbursements for the year totaled \$5,207,623, a five percent decrease from the prior year, and included \$337,381 for public works, \$215,464 for public safety, and \$163,893 for culture and recreation. Also, disbursements for business type activities totaled \$4,226,094. The City also redeemed notes in the amount of \$1,570,000 that are reported as non-operating disbursements.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

CITY OF HARTLEY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2004

CITY OF HARTLEY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
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SCHEDULE OF FINDINGS

JUNE 30, 2004

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 6-7
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 8-9
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 10
Notes to Financial Statements	11-18
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	20
Notes to Required Supplementary Information - Budgetary Reporting	21
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 23
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Funds	2 24
Schedule of Indebtedness	3 25
Note Maturities	4 26
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5 27
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	28-29
Schedule of Findings	30-32

CITY OF HARTLEY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January, 2004)		
Edward Robinson	Mayor	January, 2004
Clayton Pyle	Council Member	January, 2006
Arlo Snider	Council Member	January, 2006
Bradley Meendering	Council Member	January, 2006
Blayne Johnson	Council Member	January, 2004
Gerald Verhoef	Council Member	January, 2004
Paula Kay Cmelik	City Clerk/Administrator	Indefinite
Dennis Cmelik	Attorney	Indefinite
(After January, 2004)		
Rodney Ahrenstorff	Mayor	January, 2006
Blayne Johnson (Elected May, 2004)	Council Member	January, 2006
Bradley Meendering	Council Member	January, 2006
Clayton Pyle	Council Member	January, 2006
Arlo Snider	Council Member	Deceased February, 2004
Dan Mohni	Council Member	January, 2008
Pam Sease	Council Member	January, 2008
Paula Kay Cmelik	City Clerk/Administrator	Indefinite
Dennis Cmelik	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hartley, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hartley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hartley, Iowa, as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 17, during the year ended June 30, 2004, the City of Hartley adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2004 on our consideration of City of Hartley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Budgetary comparison information on pages 20 through 21 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City of Hartley, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

Hungelman, Putzier & Co.

September 1, 2004

CITY OF HARTLEY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Exhibit A

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
		Charges for Service	Operating Grants, Contributions, and Restricted Interest		Governmental Activities	Business Type Activities
Functions/Programs:						
Governmental Activities						
Public safety	\$ 215,464	\$ 38,855	\$ 47,575	\$ (129,034)	\$ -	\$ (129,034)
Public works	337,381	5,912	156,788	(174,681)	-	(174,681)
Culture and recreation	163,893	23,449	11,475	(128,969)	-	(128,969)
Community and economic development	107,193	-	-	(107,193)	-	(107,193)
General government	96,598	-	-	(96,598)	-	(96,598)
Debt service	61,000	-	-	(61,000)	-	(61,000)
Total governmental activities	981,529	68,216	215,838	(697,475)	-	(697,475)
Business type activities						
Water service	685,436	171,463	-	-	(513,973)	(513,973)
Sewer service	247,986	133,553	5,610	-	(108,823)	(108,823)
Electric service	1,038,640	942,862	-	-	(95,778)	(95,778)
Gas service	843,988	793,329	-	-	(50,659)	(50,659)
Solid waste	103,479	114,009	-	-	10,530	10,530
Consumer deposit	16,453	15,001	-	-	(1,452)	(1,452)
Cable	1,290,112	130,783	-	-	(1,159,329)	(1,159,329)
Total business type activities	4,226,094	2,301,000	5,610	-	(1,919,484)	(1,919,484)
Total	\$ 5,207,623	\$2,369,216	\$ 221,448	(697,475)	(1,919,484)	(2,616,959)
General Receipts:						
Property tax levied for:						
General purposes				268,036	-	268,036
Tax increment financing				195,663	-	195,663
Local option sales tax				100,648	-	100,648
Unrestricted interest on investments				39,395	40,901	80,296
Bank franchise tax				3,067	-	3,067
Special assessments				26,674	-	26,674
Sale of assets				18,000	-	18,000
Revenue notes issued				-	1,667,804	1,667,804
Miscellaneous				22,090	2,303	24,393
Transfers				(132,314)	132,314	-
Total general receipts and transfers				541,259	1,843,322	2,384,581

(Continued)

CITY OF HARTLEY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Exhibit A
(Continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Change in cash basis net assets				\$ (156,216)	\$ (76,162)	\$ (232,378)
Cash basis net assets beginning of year, as restated				<u>809,751</u>	<u>2,567,214</u>	<u>3,376,965</u>
Cash basis net assets end of year				<u>\$ 653,535</u>	<u>\$2,491,052</u>	<u>\$ 3,144,587</u>
Cash Basis Net Assets						
Restricted:						
Streets				\$ 93,408	\$ -	\$ 93,408
Tax increment financing projects				36,488	-	36,488
Debt service				70,513	733,625	804,138
Other purposes				112,393	-	112,393
Unrestricted				<u>340,733</u>	<u>1,757,427</u>	<u>2,098,160</u>
Total cash basis net assets				<u>\$ 653,535</u>	<u>\$2,491,052</u>	<u>\$ 3,144,587</u>

See notes to financial statements.

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	<u>Special Revenue</u>			<u>Other</u>	
	<u>General</u>	<u>Road</u>	<u>Tax</u>	<u>Non-major</u>	
		<u>Use</u>	<u>Increment</u>	<u>Governmental</u>	<u>Total</u>
			<u>Financing</u>	<u>Funds</u>	
Receipts:					
Property taxes	\$ 182,207	\$ -	\$ -	\$ 85,829	\$ 268,036
Tax increment financing collections	-	-	195,663	-	195,663
Other city tax	-	-	-	100,648	100,648
License and permits	2,276	-	-	-	2,276
Use of money and property	51,061	-	-	-	51,061
Intergovernmental	49,326	144,337	-	-	193,663
Charges for service	58,675	-	-	-	58,675
Special assessments	4,999	-	-	21,675	26,674
Miscellaneous	40,201	-	-	2,730	42,931
Total receipts	<u>388,745</u>	<u>144,337</u>	<u>195,663</u>	<u>210,882</u>	<u>939,627</u>
Disbursements:					
Operating:					
Public safety	215,464	-	-	-	215,464
Public works	55,533	281,848	-	-	337,381
Culture and recreation	162,939	-	-	954	163,893
Community and economic development	538	-	1,140	105,515	107,193
General government	96,598	-	-	-	96,598
Debt service	-	-	-	61,000	61,000
Total disbursements	<u>531,072</u>	<u>281,848</u>	<u>1,140</u>	<u>167,469</u>	<u>981,529</u>
Excess (deficiency) of receipts over disbursements	<u>(142,327)</u>	<u>(137,511)</u>	<u>194,523</u>	<u>43,413</u>	<u>\$ (41,902)</u>
Other financing sources (uses):					
Sale of capital assets	18,000	-	-	-	18,000
Operating transfers in	143,143	-	-	86,712	229,855
Operating transfers out	-	-	(187,400)	(174,769)	(362,169)
Total other financing sources (uses)	<u>161,143</u>	<u>-</u>	<u>(187,400)</u>	<u>(88,057)</u>	<u>(114,314)</u>
Net change in cash balances	18,816	(137,511)	7,123	(44,644)	(156,216)
Cash balances beginning of year	<u>320,863</u>	<u>230,919</u>	<u>29,365</u>	<u>228,604</u>	<u>809,751</u>
Cash balances end of year	<u>\$ 339,679</u>	<u>\$ 93,408</u>	<u>\$ 36,488</u>	<u>\$ 183,960</u>	<u>\$ 653,535</u>

(Continued)

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B
(Continued)

	<u>Special Revenue</u>			Other	
		Road	Tax	Non-major	
	<u>General</u>	<u>Use</u>	<u>Increment</u>	<u>Governmental</u>	<u>Total</u>
			<u>Financing</u>	<u>Funds</u>	
Cash Basis Fund Balances					
Reserved for debt service	\$ -	\$ -	\$ -	\$ 70,513	\$ 70,513
Unreserved:					
General fund	339,679	-	-	-	339,679
Special revenue funds	-	93,408	36,488	25,721	155,617
Capital projects fund	-	-	-	1,054	1,054
Permanent fund	-	-	-	86,672	86,672
Total cash basis fund balances	<u>\$ 339,679</u>	<u>\$ 93,408</u>	<u>\$ 36,488</u>	<u>\$ 183,960</u>	<u>\$ 653,535</u>

See notes to financial statements.

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	Water	Sewer	Electric	Gas	Other Non-major Proprietary Funds	Total
Operating Receipts:						
Use of money and property	\$ -	\$ -	\$ 1,451	\$ -	\$ 2,824	\$ 4,275
Charges for service	170,705	133,510	940,353	790,614	220,075	2,255,257
Miscellaneous	758	43	1,058	2,715	36,894	41,468
Total operating receipts	<u>171,463</u>	<u>133,553</u>	<u>942,862</u>	<u>793,329</u>	<u>259,793</u>	<u>2,301,000</u>
Operating Disbursements:						
Business type activities	<u>262,902</u>	<u>247,986</u>	<u>839,300</u>	<u>778,423</u>	<u>178,154</u>	<u>2,306,765</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(91,439)</u>	<u>(114,433)</u>	<u>103,562</u>	<u>14,906</u>	<u>81,639</u>	<u>(5,765)</u>
Non-operating receipts (disbursements):						
Intergovernmental	-	5,610	-	-	-	5,610
Interest on investments	3,058	7,276	24,631	3,833	2,103	40,901
Miscellaneous	295	21	1,382	291	314	2,303
Revenue notes issued	393,596	-	-	-	1,274,208	1,667,804
Revenue project notes paid	-	-	-	-	(1,185,000)	(1,185,000)
Water improvement warrants redeemed	(385,000)	-	-	-	-	(385,000)
Debt service	<u>(37,534)</u>	<u>-</u>	<u>(199,340)</u>	<u>(65,565)</u>	<u>(46,890)</u>	<u>(349,329)</u>
Total non-operating receipts (disbursements)	<u>(25,585)</u>	<u>12,907</u>	<u>(173,327)</u>	<u>(61,441)</u>	<u>44,735</u>	<u>(202,711)</u>
Excess (deficiency) of receipts over disbursements	<u>(117,024)</u>	<u>(101,526)</u>	<u>(69,765)</u>	<u>(46,535)</u>	<u>126,374</u>	<u>(208,476)</u>
Operating transfers in	140,375	47,025	-	-	-	187,400
Operating transfers out	<u>-</u>	<u>-</u>	<u>(44,282)</u>	<u>(10,804)</u>	<u>-</u>	<u>(55,086)</u>
	<u>140,375</u>	<u>47,025</u>	<u>(44,282)</u>	<u>(10,804)</u>	<u>-</u>	<u>132,314</u>
Net change in cash balances	23,351	(54,501)	(114,047)	(57,339)	126,374	(76,162)
Cash balances beginning of year	171,678	315,085	1,651,238	266,281	162,932	2,567,214
Cash balances end of year	<u>\$195,029</u>	<u>\$260,584</u>	<u>\$1,537,191</u>	<u>\$208,942</u>	<u>\$289,306</u>	<u>\$2,491,052</u>
Cash Basis Fund Balances						
Reserved for debt service	\$ 51,932	\$ -	\$ 525,899	\$ 105,879	\$ 49,915	\$ 733,625
Unreserved	143,097	260,584	1,011,292	103,063	239,391	1,757,427
Total cash basis fund balances	<u>\$195,029</u>	<u>\$260,584</u>	<u>\$1,537,191</u>	<u>\$208,942</u>	<u>\$289,306</u>	<u>\$2,491,052</u>

See notes to financial statements.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, City of Hartley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2004:

Balance, beginning of year	\$ 3,679
Receipts	98,718
Disbursements	<u>97,072</u>
Balance, end of year	<u>\$ 5,325</u>

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.

City of Hartley also has a 32.2% interest in a joint venture with Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2004 is \$151,473.

Jointly Governed Organizations -The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2004 were \$16,209.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for projects financed by tax increment financing.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

C. Measurement Focus and Basis of Accounting

The City of Hartley maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service function.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 3.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

3. NOTES PAYABLE

Annual debt service requirements to maturity for revenue, general obligation, and special assessment notes are as follows:

<u>Year Ending June 30,</u>	<u>Revenue Notes</u>		<u>Revenue Capital Loan Notes</u>		<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 80,000	\$ 23,395	\$ 170,000	\$ 144,073	\$30,000	\$15,150
2006	80,000	19,325	180,000	137,682	30,000	13,860
2007	25,000	15,105	185,000	130,503	30,000	12,540
2008	25,000	14,343	195,000	122,707	35,000	11,190
2009	25,000	13,480	200,000	114,203	35,000	9,580
2010-2014	135,000	51,982	1,155,000	421,446	160,000	20,780
2015-2019	130,000	17,105	1,060,000	121,445	-	-
Total	<u>\$500,000</u>	<u>\$154,735</u>	<u>\$3,145,000</u>	<u>\$1,192,059</u>	<u>\$320,000</u>	<u>\$83,100</u>

<u>Year Ending June 30,</u>	<u>Special Assessment Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$10,000	\$3,175	\$ 290,000	\$ 185,793
2006	10,000	2,620	300,000	173,487
2007	10,000	2,055	250,000	160,203
2008	10,000	1,480	265,000	149,720
2009	10,000	895	270,000	138,158
2010-2014	10,000	300	1,460,000	494,508
2015-2019	-	-	1,190,000	138,550
Total	<u>\$60,000</u>	<u>\$10,525</u>	<u>\$4,025,000</u>	<u>\$1,440,419</u>

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate electric, gas, water, and telecommunication revenue sinking accounts for the purpose of making the note principal and interest payments when due.
- C. The City is to establish separate Electric, Gas, Water and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$190,000 for electric, \$50,000 for gas, and \$40,000 for water. Sufficient monthly transfers shall be made to the telecommunication reserve account in an amount equal to twenty five percent of the monthly sinking fund transfers.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund, \$850 to the Gas Improvement Fund, and \$5,000 to the Telecommunication Improvement Fund shall be made until the sum of \$150,000, \$50,000, and \$500,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

4. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$3,370 for the year ended June 30, 2004. Minimum amounts payable under this operating lease are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2005	\$1,710

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$32,837, \$32,888, and \$31,455 respectively, equal to the required contributions for each year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 26,066
Sick leave	170,867
Total	<u>\$196,933</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay at June 30, 2004.

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$16,209 for the year ended June 30, 2004.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

7. INTERGOVERNMENTAL AGREEMENTS - (Continued)

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and postclosure costs to the agency have been estimated at \$1,874,500 as of June 30, 2004 and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2004 deposits of \$985,867 are held for these purposes. No estimate has been made as to the effect of future assessments to the City.

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2004 consists of the following:

Transmission capacity	\$313,806
Members' advances for transmission capacity	228,208
Other members' capital	11,730
Membership	<u>100</u>
	<u>\$553,844</u>

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

9. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefit	\$ 78,057
	Local Option Sales Tax	10,000
	Enterprise:	
	Electric	44,282
	Gas	10,804
Special Revenue:	Special Revenue:	
Economic Development	Local Option Sales Tax	49,704
Debt Service	Special Revenue:	
	Local Option Sales Tax	37,008

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

9. INTERFUND TRANSFERS - (Continued)

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Proprietary:		
Water	Special Revenue:	
	Tax Increment Financing	\$140,375
Sewer	Special Revenue:	
	Tax Increment Financing	<u>47,025</u>
		<u>\$417,255</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

10. ANTICIPATORY WARRANTS

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

During the year ended June 30, 2003, the City issued \$385,000 in anticipatory warrants for water improvements at 2.75% interest per annum. These warrants were paid during the year ended June 30, 2004, including interest of \$7,941.

11. BUDGET OVEREXPENDITURE

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements in the Debt Service function exceeded the amount budgeted.

12. RISK MANAGEMENT

City of Hartley is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. PROMISSORY NOTES

On April 6, 1998 City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999 with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

14. CONSTRUCTION CONTRACTS AND COMMITMENTS

The City has entered into the following contracts which were not completed as of June 30, 2004.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of 6-30-04</u>	<u>Remaining Commitment As of 6-30-04</u>
Water Treatment Plant	\$506,128	\$470,078	\$36,050

15. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$1,400,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$672,223 is outstanding at June 30, 2004. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

16. SUBSEQUENT EVENTS

In August 2004, the City approved a bid in the amount of \$2,211,000 for construction of a new wastewater treatment facility. The project will be financed through a Community Development Block Grant in the amount of \$500,000, sewer revenue bonds in the amount of \$1,300,000, and the remaining balance with funds on hand.

17. ACCOUNTING CHANGE AND RESTATEMENTS

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities. Beginning net assets have been restated to include the allocation of the Equipment Revolving Fund.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Cash basis net assets June 30, 2003, as previously reported	\$586,923	\$2,372,096
Equipment Revolving Fund	<u>222,828</u>	<u>195,118</u>
Cash basis net assets July, 1, 2003, as restated	<u>\$809,751</u>	<u>\$2,567,214</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARTLEY
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Net	<u>Budgeted Amounts</u>		Final to Net Variance
				<u>Original</u>	<u>Final</u>	
Receipts:						
Property taxes	\$ 268,036	\$ -	\$ 268,036	\$ 265,038	\$ 265,038	\$ 2,998
Tax increment financing collections	195,663	-	195,663	187,400	187,400	8,263
Other city tax	100,648	-	100,648	95,000	95,000	5,648
License and permits	2,276	-	2,276	1,775	1,987	289
Use of money and property	51,061	45,176	96,237	74,233	78,958	17,279
Intergovernmental	193,663	5,610	199,273	182,963	184,096	15,177
Charges for service	58,675	2,255,257	2,313,932	2,537,095	2,512,285	(198,353)
Special assessments	26,674	-	26,674	15,200	23,886	2,788
Miscellaneous	42,931	43,771	86,702	29,713	78,381	8,321
Total receipts	<u>939,627</u>	<u>2,349,814</u>	<u>3,289,441</u>	<u>3,388,417</u>	<u>3,427,031</u>	<u>(137,590)</u>
Disbursements:						
Public safety	215,464	-	215,464	210,887	239,886	24,422
Public works	337,381	-	337,381	244,324	352,097	14,716
Culture and recreation	163,893	-	163,893	199,112	185,751	21,858
Community and economic development	107,193	-	107,193	95,538	107,847	654
General government	96,598	-	96,598	129,550	118,385	21,787
Debt service	61,000	-	61,000	61,155	60,850	(150)
Business type activities	-	2,656,094	2,656,094	3,187,102	4,631,418	1,975,324
Total disbursements	<u>981,529</u>	<u>2,656,094</u>	<u>3,637,623</u>	<u>4,127,668</u>	<u>5,696,234</u>	<u>2,058,611</u>
Excess (deficiency) of receipts over disbursements	(41,902)	(306,280)	(348,182)	(739,251)	(2,269,203)	1,921,021
Other financing sources (uses), net	<u>(114,314)</u>	<u>230,118</u>	<u>115,804</u>	<u>-</u>	<u>1,498,000</u>	<u>(1,382,196)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(156,216)	(76,162)	(232,378)	(739,251)	(771,203)	538,825
Balances, beginning of year	<u>809,751</u>	<u>2,567,214</u>	<u>3,376,965</u>	<u>2,611,346</u>	<u>3,376,970</u>	<u>(5)</u>
Balances, end of year	<u>\$ 653,535</u>	<u>\$ 2,491,052</u>	<u>\$3,144,587</u>	<u>\$1,872,095</u>	<u>\$ 2,605,767</u>	<u>\$ 538,820</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,568,566. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in debt service function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Schedule I

	Special Revenue				Debt Service		Capital Project	Permanent	
	Employee Benefits	Local Option Sales Tax	Special Education D.A.R.E.	Economic Development	Library Expansion	Central Avenue Improvement	Library	Cemetery Perpetual Care	Total
Receipts:									
Property taxes	\$ 85,829	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,829
Other city tax	-	100,648	-	-	-	-	-	-	100,648
Special assessments	-	-	-	-	-	21,675	-	-	21,675
Miscellaneous	-	-	-	-	1,256	-	1,054	420	2,730
Total receipts	<u>85,829</u>	<u>100,648</u>	<u>-</u>	<u>-</u>	<u>1,256</u>	<u>21,675</u>	<u>1,054</u>	<u>420</u>	<u>210,882</u>
Disbursements:									
Operating:									
Culture and recreation	-	-	954	-	-	-	-	-	954
Community and economic development	-	-	-	105,515	-	-	-	-	105,515
Debt service	-	-	-	-	46,710	14,290	-	-	61,000
Total disbursements	<u>-</u>	<u>-</u>	<u>954</u>	<u>105,515</u>	<u>46,710</u>	<u>14,290</u>	<u>-</u>	<u>-</u>	<u>167,469</u>
Excess (deficiency) of receipts over disbursements	<u>85,829</u>	<u>100,648</u>	<u>(954)</u>	<u>(105,515)</u>	<u>(45,454)</u>	<u>7,385</u>	<u>1,054</u>	<u>420</u>	<u>43,413</u>
Other financing sources (uses):									
Operating transfers in	-	-	-	49,704	37,008	-	-	-	86,712
Operating transfers out	<u>(78,057)</u>	<u>(96,712)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(174,769)</u>
Total other financing sources (uses)	<u>(78,057)</u>	<u>(96,712)</u>	<u>-</u>	<u>49,704</u>	<u>37,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(88,057)</u>
Net change in cash balances	7,772	3,936	(954)	(55,811)	(8,446)	7,385	1,054	420	(44,644)
Cash balances beginning of year	<u>222</u>	<u>9,588</u>	<u>954</u>	<u>60,014</u>	<u>46,410</u>	<u>25,164</u>	<u>-</u>	<u>86,252</u>	<u>228,604</u>
Cash balances end of year	<u>\$ 7,994</u>	<u>\$ 13,524</u>	<u>\$ -</u>	<u>\$ 4,203</u>	<u>\$ 37,964</u>	<u>\$ 32,549</u>	<u>\$ 1,054</u>	<u>\$ 86,672</u>	<u>\$ 183,960</u>
Cash Basis Fund Balances									
Unreserved:									
Special Revenue funds	\$ 7,994	\$ 13,524	\$ -	\$ 4,203	\$ -	\$ -	\$ -	\$ -	\$ 25,721
Debt service funds	-	-	-	-	37,964	32,549	-	-	70,513
Capital projects fund	-	-	-	-	-	-	1,054	-	1,054
Permanent fund	-	-	-	-	-	-	-	86,672	86,672
Total cash basis fund balances	<u>\$ 7,994</u>	<u>\$ 13,524</u>	<u>\$ -</u>	<u>\$ 4,203</u>	<u>\$ 37,964</u>	<u>\$ 32,549</u>	<u>\$ 1,054</u>	<u>\$ 86,672</u>	<u>\$ 183,960</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Schedule 2

	<u>Solid Waste</u>	<u>Consumer Deposit</u>	<u>Cable</u>	<u>Total</u>
Operating receipts:				
Use of money and property	\$ 2,824	\$ -	\$ -	\$ 2,824
Charges for service	109,421	-	110,654	220,075
Miscellaneous	1,764	15,001	20,129	36,894
Total operating receipts	<u>114,009</u>	<u>15,001</u>	<u>130,783</u>	<u>259,793</u>
Operating disbursements:				
Business type activities	<u>103,479</u>	<u>16,453</u>	<u>58,222</u>	<u>178,154</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>10,530</u>	<u>(1,452)</u>	<u>72,561</u>	<u>81,639</u>
Non-operating receipts (disbursements)				
Interest on investments	86	-	2,017	2,103
Miscellaneous	287	-	27	314
Revenue notes issued	-	-	1,274,208	1,274,208
Revenue project notes paid	-	-	(1,185,000)	(1,185,000)
Debt service	-	-	(46,890)	(46,890)
Total non-operating receipts (disbursements)	<u>373</u>	<u>-</u>	<u>44,362</u>	<u>44,735</u>
Net change in cash balances	10,903	(1,452)	116,923	126,374
Cash balances beginning of year	<u>5,188</u>	<u>28,690</u>	<u>129,054</u>	<u>162,932</u>
Cash balances end of year	<u>\$ 16,091</u>	<u>\$ 27,238</u>	<u>\$ 245,977</u>	<u>\$ 289,306</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	\$ -	\$ 49,915	\$ 49,915
Unreserved	<u>16,091</u>	<u>27,238</u>	<u>196,062</u>	<u>239,391</u>
Total cash basis fund balances	<u>\$ 16,091</u>	<u>\$ 27,238</u>	<u>\$ 245,977</u>	<u>\$ 289,306</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2004

Schedule 3

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
Revenue Notes:									
Electric	August 1, 1993	5.25%	\$ 600,000	\$ 70,000	\$ -	\$ 70,000	\$ -	\$ 1,838	\$ -
Gas	September 1, 1994	5.90 - 6.15%	550,000	175,000	-	55,000	120,000	10,565	-
Water	November 1, 2003	1.85 - 5.20%	<u>400,000</u>	<u>-</u>	<u>400,000</u>	<u>20,000</u>	<u>380,000</u>	<u>9,593</u>	<u>-</u>
			<u>\$ 1,550,000</u>	<u>\$ 245,000</u>	<u>\$ 400,000</u>	<u>\$ 145,000</u>	<u>\$ 500,000</u>	<u>\$ 21,996</u>	<u>\$ -</u>
Revenue Project Notes:									
Telecommunication	February 1, 2003	3.50%	<u>\$ 1,185,000</u>	<u>\$ 1,185,000</u>	<u>\$ -</u>	<u>\$ 1,185,000</u>	<u>\$ -</u>	<u>\$ 46,890</u>	<u>\$ -</u>
Revenue Capital Loan Notes:									
Electric	February 1, 2001	4.70 - 5.55%	\$ 1,900,000	\$ 1,875,000	\$ -	\$ 30,000	\$ 1,845,000	\$ 97,503	\$ -
Telecommunication	March 1, 2004	1.85 - 4.90%	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>	<u>-</u>	<u>-</u>
			<u>\$ 3,200,000</u>	<u>\$ 1,875,000</u>	<u>\$ 1,300,000</u>	<u>\$ 30,000</u>	<u>\$ 3,145,000</u>	<u>\$ 97,503</u>	<u>\$ -</u>
General Obligation Notes:									
Library	June 1, 2001	4.20 - 5.10%	<u>\$ 400,000</u>	<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 320,000</u>	<u>\$ 16,410</u>	<u>\$ -</u>
Special Assessment:									
Street Improvement	September 1, 2000	5.40 - 6.00%	<u>\$ 92,000</u>	<u>\$ 70,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 60,000</u>	<u>\$ 3,990</u>	<u>\$ -</u>
Anticipatory Warrants:									
Water Improvement	September 25, 2002	2.75%	<u>\$ 385,000</u>	<u>\$ 385,000</u>	<u>\$ -</u>	<u>\$ 385,000</u>	<u>\$ -</u>	<u>\$ 7,941</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
NOTE MATURITIES
JUNE 30, 2004

Schedule 4

Year Ending June 30,	Revenue Notes				Special Assessment Street Improvement	
	Gas Notes		Water Notes		Issued September 1, 2000	
	Issued September 1, 1994		Issued November 1, 2003			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2005	6.05%	\$ 60,000	2.20%	\$ 20,000	5.50%	\$ 10,000
2006	6.15	60,000	2.65	20,000	5.60	10,000
2007	-	-	3.05	25,000	5.70	10,000
2008	-	-	3.45	25,000	5.80	10,000
2009	-	-	3.70	25,000	5.90	10,000
2010	-	-	4.00	25,000	6.00	10,000
2011	-	-	4.25	25,000	-	-
2012	-	-	4.45	25,000	-	-
2013	-	-	4.60	30,000	-	-
2014	-	-	4.75	30,000	-	-
2015	-	-	4.90	30,000	-	-
2016	-	-	5.00	30,000	-	-
2017	-	-	5.10	35,000	-	-
2018	-	-	5.20	35,000	-	-
		<u>\$ 120,000</u>		<u>\$ 380,000</u>		<u>\$ 60,000</u>

Year Ending June 30,	Revenue Capital Loan Notes				General Obligation Library Notes		
	Electric Notes		Telecommunication Notes		Issued June 1, 2001		
	Issued February 1, 2001		Issued March 1, 2004				
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2005	4.80%	\$ 100,000	1.85%	\$ 70,000	4.30%	\$ 30,000	\$ 290,000
2006	4.90	110,000	2.30	70,000	4.40	30,000	300,000
2007	5.00	115,000	2.70	70,000	4.50	30,000	250,000
2008	5.05	120,000	3.05	75,000	4.60	35,000	265,000
2009	5.10	125,000	3.25	75,000	4.70	35,000	270,000
2010	5.15	130,000	3.50	80,000	4.80	35,000	280,000
2011	5.20	140,000	3.70	80,000	4.90	40,000	285,000
2012	5.25	145,000	3.85	85,000	5.00	40,000	295,000
2013	5.30	155,000	4.00	85,000	5.10	45,000	315,000
2014	5.40	165,000	4.15	90,000	-	-	285,000
2015	5.45	170,000	4.30	95,000	-	-	295,000
2016	5.50	180,000	4.45	100,000	-	-	310,000
2017	5.55	190,000	4.60	105,000	-	-	330,000
2018	-	-	4.75	105,000	-	-	140,000
2019	-	-	4.90	115,000	-	-	115,000
		<u>\$ 1,845,000</u>		<u>\$ 1,300,000</u>		<u>\$ 320,000</u>	<u>\$ 4,025,000</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST TWO YEARS

Schedule 5

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 268,036	\$ 259,089
Tax increment financing collections	195,663	190,439
Other city tax	100,648	102,318
License and permits	2,276	2,078
Use of money and property	51,061	25,239
Intergovernmental	193,663	183,300
Charges for service	58,675	85,040
Special assessments	26,674	16,620
Miscellaneous	42,931	28,748
Total	<u>\$ 939,627</u>	<u>\$ 892,871</u>
Disbursements:		
Operating:		
Public safety	\$ 215,464	\$ 345,606
Public works	337,381	164,224
Culture and recreation	163,893	171,509
Community and economic development	107,193	2,791
General government	96,598	89,965
Debt service	61,000	67,503
Total	<u>\$ 981,529</u>	<u>\$ 841,598</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

We have audited the financial statements of City of Hartley, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 1, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item II-B-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hartley's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Hartley's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-04 and I-B-04 are material weaknesses. Prior year reportable conditions have been resolved except for items I-A-04 and I-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hartley, and other parties to whom City of Hartley may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Hartley during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hungelman, Putzier & Co.

September 1, 2004

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS

- I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliation are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - It is our practice to cross train each employee on all aspects of our office. Each employee is assigned specific responsibilities. The cross training is used primarily to allow for vacations and unexpected illnesses. We have reviewed our operating procedures and believe we have obtained the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

- I-B-04 Ambulance Funds - The Ambulance currently maintains a separate bank account which is not included in the City's financial records. This is not a separate non-profit corporation, but is a department of the City. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - This fund should be included in the City's financial records and any disbursements should be budgeted.

Response - The Ambulance Team has completed their paperwork for their corporation but has not completed their application for a tax exempt ruling. The council is requiring that they receive an IRS tax exempt ruling for their funds the same as they are requiring of the Firefighters' Association. The creation of the association and the IRS ruling must be completed in order for them to continue to retain a separate account. If both items are not completed they will be obligated to close their account and deposit the same into the city account accordingly. If in the future the team begins contributing a significant amount to the city in e.g. equipment or monetary, they were made aware that the funds will be considered public funds once again.

Conclusion - Response accepted.

CITY OF HARTLEY

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - A resolution naming official depositories has been adopted by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements during the year exceeded the amounts budgeted in the Community and Economic Development, and Business Type Activities functions prior to the budget amendment, and in the Debt Service function at year end. Chapter 384.20 of the Code of Iowa states in part the public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We try to control costs and time by publishing an amendment only one a year. The council approves all expenditures including those over budget at their regular scheduled monthly meetings. Our budgets are not usually so unpredictable but the continuing construction projects such as the water, wastewater, and telecommunications were very difficult to forecast.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions - We noted no business transactions between the City and City officials or employees.

II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment policy were noted.

II-I-04 Revenue Notes - The City has established the sinking and reserve accounts required by the electric, gas, water, and telecommunication revenue note resolutions. However, the electric sinking, telecommunication reserve, telecommunications improvement, and water improvement funds are underfunded as of June 30, 2004 by \$46,100, \$9,973, \$20,000, and \$29,000 respectively.

Recommendation - The City should make the required transfers into these funds as required by the revenue note resolutions.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-I-04 Revenue Notes - (Continued)

Response - The balances have been corrected. The Community Agency was originally going to contribute all of the funds for the sinking, improvement, and reserve accounts. They are only contributing the sinking funds to date so we have corrected those funds by contributing to them through the city telecommunication fund. We will continue to do so as funds are available. The permanent financing of the Electric portion of the telecommunications paid in full the 1994 Revenue Debt and we had not adjusted our balances to reflect the same. We have done so now. The water project was looking at doing a Phase II and we were waiting until that financing was complete. This did not materialize so the balances have been brought up to date accordingly.

Conclusion - Response accepted.